



COMPTROLLER

UNDER SECRETARY OF DEFENSE
1100 DEFENSE PENTAGON
WASHINGTON, DC 20301-1100



JAN 24 2003

The Honorable Duncan Hunter
Chairman, Committee on Armed Services
U.S. House of Representatives
Washington, D.C. 20515

Dear Mr. Chairman:

In accordance with statute, I am notifying you of the Department's intent to transfer \$24.3 million of Air Force family housing funds into the Department of Defense Family Housing Improvement Fund (FHIF) to finance a family housing privatization project at Kirtland Air Force Base (AFB), New Mexico.

The \$24.3 million we intend to transfer into the FHIF will fund the Air Force's direct loan and loan guaranteed investment, which will provide 1,078 privatized units for military families at Kirtland AFB.

A description of the proposed project is enclosed. Representatives of the Department of the Air Force and the Competitive Sourcing and Privatization Office are available to provide any additional information you may desire.

A similar letter is being sent to the Chairmen and Ranking Members of the other congressional Defense Committees.

Sincerely,

Dov S. Zakheim

Enclosure

cc: The Honorable Ike Skelton
Ranking Member

MILITARY HOUSING PRIVATIZATION INITIATIVE AIR FORCE PROJECT SUMMARY

INSTALLATION:

Kirtland AFB, NM

SCOPE:

The project is one of the Air Force's pilot projects and involves a non-Federal Acquisition Regulation real estate transaction with the Successful Offeror (SO) under which the Government will convey 1,784 existing housing units and lease approximately 649 acres of improved land divided among six parcels (West Capehart, Maxwell, East Capehart, Loop, New Pershing Park, and Zia Park). The purpose of the business venture is for a private entity to finance, plan, design and construct improvements, as well as own, operate, and maintain a rental housing development for 1,078 military families for up to 50 years.

The 1,078 privatized units shall consist of 211 existing units (conveyed as is) located in New Pershing Park and the construction of 867 new units in the Loop, East Capehart, and New Pershing Park areas. Therefore, 1,573 existing units will be demolished.

The 224 Maxwell housing units, located on a non-contiguous part of the installation, will be available exclusively to accompanied military personnel during the 3.5-year construction phase. From construction completion to 13.5 years from transaction closing, these units will be available to prospective military tenants and the general public at market rents. The units will be demolished by the SO no later than the end of year 14 and this portion of the land lease will expire.

The lease will also require the substantial renovation or replacement, as required, of all 1,078 privatized units no later than 25 years after completion of their last major renovation. The modernization shall be an upgrade including, but not limited to, updating the unit functionality and space requirements, integration of new technologies, modernization of the units as a whole including energy efficiencies, electrical and mechanical systems, updating of architectural finishes, kitchen appliances, cabinetry and plumbing fixtures.

The United States Air Force competitively solicited for the project and selected a developer on 23 April 2002. The total development cost will be \$150.6 million. The developer will obtain a \$67.0 million private sector commercial loan. The Government will provide a \$58.6 million direct second loan and a limited guarantee of the private first mortgage for base closure, mission drawdown, or extended deployment. The developer's equity contribution is \$7.6 million. The SO will utilize their equity contribution and private sector commercial loan proceeds before using the Government direct loan in project financing. Life cycle cost for the equivalent military construction is \$382.5 million with a total development cost of \$155.2 million. Life cycle cost for this privatization project is \$282.1 million with a development cost of \$150.6 million. Leverage for the project is 6.4:1.

The agreement will provide service members the opportunity to occupy quality housing that is safe and affordable. Payment of rent and reasonable utility costs will not exceed the

members Basic Allowance for Housing (BAH) under this transaction. The service members will pay rent and utilities. The rental units will be made available to Air Force families on a preferential basis.

No Army and Air Force Exchange Service (AAFES), Defense Commissary Agency (DeCA) or Morale Welfare and Recreation (MWR) activities will be affected by this privatization initiative and the land lease will preclude the SO from having any revenue generating activities that compete with AAFES, DeCA, or MWR.

AUTHORIZATION:

10 U.S.C. Section 2873, Direct loans and loan guarantees. The government will provide a second mortgage to the SO and guarantee the balance of the first mortgage against default by the offeror caused by base closure, mission drawdown, or extended deployment.

10 U.S.C. Section 2878, Conveyance or lease of existing property and facilities. Housing units will be conveyed and land will be leased to the SO as part of this project.

10 U.S.C. Section 2880, Unit size and type. The housing to be renovated and constructed as part of this project will be similar to that found in the local community.

10 U.S.C. Section 2881, Ancillary supporting facilities. No conflict with AAFES, DeCA or nonappropriated fund activities. Ancillary facilities will include a community center, with an indoor lounge, community rooms, common kitchen, business center, pool complex, and exercise club; playgrounds; athletic fields; bus shelters; and a jogging trail/bike path.

10 U.S.C. Section 2882, Assignment of members of the armed forces to housing units. Military members will pay BAH minus an allowance for utilities to the SO by allotment.

10 U.S.C. Section 2883, Department of Defense Housing Funds. A transfer of appropriated funds to the DoD Family Housing Improvement Fund will be required.

JUSTIFICATION:

This project will provide military families access to safe, quality, affordable housing. The 1,573 units scheduled for demolition were built in various stages since 1947 and require improvements that exceed 70 percent of their replacement value. Only the first of a series of military construction projects to improve housing at Kirtland AFB was executed in 1996 for New Pershing Park. The subsequent programmed military construction projects were suspended as a result of the privatization initiative. Since 1996, Kirtland AFB performed only maintenance and repair work (no renovation) on the units aside from construction of the New Pershing Parks housing units from 1996-1997. The New Pershing units only require minor improvements at this time.

FUNDS REQUIRED:

The scored cost was not advertised to the developers in the Request for Proposals by direction of Office of the Secretary of Defense (OSD). The total scored amount from this solicitation is \$24.3 million, including \$20.5 million for the direct loan and \$3.8 million for the limited loan guarantee.

SOURCE OF AVAILABLE FUNDS:

<u>Fiscal Year</u>	<u>Project Number</u>	<u>Location</u>	<u>Amount</u>
1999	MHMOV 99-4002	Kirtland AFB, NM	\$ 6.4 million
2002	XDAT 99-4033	Travis AFB, CA	\$ 12.0 million
2002	QYZH 04-5002A	Mountain Home AFB, ID	\$ 5.9 million
Total			\$ 24.3 million